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City of Miami Beach: Considerations for Joining the Florida Retirement System

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Florida Retirement System (FRS)

- More than 600,000 state and local government employees and 800 agencies participate in FRS
- FRS was established and may be amended only by the state legislature.
- The City's decision to join FRS is irrevocable.

Florida Retirement System

- FRS contains **two retirement plan options**:
 - a defined benefit plan (“**Pension Plan**”),
and
 - a defined contribution plan (“**Investment Plan**”).
- Upon joining FRS, an employee can elect to participate in one plan or the other.
- FRS members can also make a **2nd election**.

Florida Retirement System

- **FRS Pension Plan** – benefits are based on a fixed formula: years of service x avg. final compensation x benefit multiplier
- Risk of loss is on system/employers
- The overwhelming majority of FRS members are in the Pension Plan.

Florida Retirement System

- **The FRS Investment Plan** – benefits are based on funds contributed to **individual member accounts**, plus investment earnings or losses [like a 401(k) plan]
- Members may direct the investment of their plan account in a variety of investments.
- Risk of loss is on employees.

FRS Participation Requirements

A local government may elect to participate in the Florida Retirement System at any time, for any of **3 employee groups**:

- General Employees
- Police Officers
- Firefighters

FRS Participation Requirements

- Joining FRS means a change in pension benefits which is **subject to collective bargaining** with unions.
- As a condition of FRS participation, **social security coverage is mandatory** for all employees who join FRS.

FRS Contributions

- FRS - funded solely by employer contributions.
- Contribution rates set by the legislature based on annual actuarial reports.
- Current FRS Pension Plan contribution rates:
 - regular (general employees) –9.85%
 - senior management –13.12%
 - special risk –20.92%
 - elected officials –16.53%

FRS Contributions

- Current FRS Investment Plan contribution rates:
 - regular (general employees) –10.41%
 - senior management – 12.37%
 - special risk –22.49%
 - elected officials –17.77%

FRS Contribution Rates will Probably Increase

- FRS has suffered significant investment losses in the past year.
- Difference between FRS and most local government pension plans: FRS was fully funded (had a surplus) as of July 2008.
- FRS contribution rates will likely increase over the next few years, from 4% to 8% (estimated).

Transition to FRS: 2 Approaches

1. **Terminate or freeze** current City plan(s)
- all employees join FRS.
2. **Close** current City plan(s) to new members— all new hires join FRS; members of closed City plan(s) may elect to stay in City plan or join FRS.

FRS Transition

- If current City pension plans are **closed**, all current plan members have individual right to elect to stay in City plan, or join FRS
- FRS statute provides additional “referendum” for police and fire; but this is typically handled through collective bargaining process.

FRS Transition

What Effect on City Retirees?

- By law, retirees have a vested right to the pension benefits in place at the time they retire.
- Retirees from City plans would continue to receive the same pension benefits as now.
- City required to continue funding closed pension plans until all benefits are paid.
- City retirees do not move to FRS.

Terminate or Freeze Current City Plan

- Current plan would terminate or benefit accruals would be frozen on a date certain.
- All members would become fully vested in their accrued benefit.
- Loss of future premium tax revenues (\$2.3 million per year that now goes mainly to police/fire share plans).
- All employees would become members of FRS.

Terminate or Freeze Current City Plan

- Police/Fire plan termination -- pension board determines how accrued benefits are to be distributed (present value paid in cash lump sum, substitute trust, annuities, etc.).
- City must pay any deficiency (difference between plan assets and termination liability – estimated to be more than **\$181 million** as of 12/31/08).

Terminate or Freeze Current City Plan

- General employees plan termination – assets are distributed in accordance with plan.
- “In the case of termination of the plan, the rights of all members to benefits accrued to the date of such termination, **to the extent then funded**, shall be non-forfeitable.”

Terminate or Freeze Current City Plan

- General employees plan termination – litigation likely if plan assets are not sufficient to cover value of accrued benefits.
- Although court decision on termination of police/fire plan was based on different law, there is a reasonable chance that courts would reach similar result in termination of general plan.

Close Current City Plan

- Current City plan would be closed to new members on date City joins FRS.
- Closed City plan continues in operation until the last benefit is paid out.
- Members of closed City plan can elect to stay in City plan or join FRS.
- All employees hired after date City joins FRS become members of FRS.

FRS Past Service Credit

- An employee who joins FRS cannot obtain credit under FRS for past service with the City for which the employee will receive a benefit from a City pension plan.
- In other words, if you elect to join FRS you cannot get credit under FRS for any service with the City that entitles you to a benefit under the City plan.

FRS Past Service Credit

- If City plan is terminated or frozen, all members of the plan become vested in the benefit accrued to date of termination/freeze.
- The members would then be entitled to a benefit from the terminated City plan.
- Because they will receive a benefit from the City plan, the members are not eligible for past service credit under FRS, **unless...**

FRS Past Service Credit

- In order for members of the City plan to be able to join FRS and obtain credit under FRS for their years of service with the City, they would have to waive their right to receive benefits from the City plan.
- They would then receive a refund of their member contributions (with interest), but nothing more, in order to be eligible to obtain credit for their past City service under FRS.

FRS Past Service Credit

- To allow vested members of the City pension plan to obtain past service credit under FRS, the City plan would have to be amended to permit members to opt out and waive their right to a benefit under the City plan.
- No one can be compelled to waive their right to a benefit under the City plan.

FRS Past Service Credit

- Past service credit under FRS may be purchased by the City, by employees, or by a combination of both.
- State law does not permit the local government to purchase upgraded past service credit on behalf of elected officers.

FRS Past Service Credit

- If the City intends to purchase past service credit for employees who elect to join FRS, this must be specified in the FRS participation agreement at the time the City joins FRS.

FRS Past Service Credit Special Risk Benefit “Glitch”

- Although the FRS special risk benefit rate is 3% of AFC for each year of service, the benefit rate for the past service of special risk members is limited to 2% of AFC for each year purchased.

FRS Past Service Credit Special Risk Benefit “Glitch”

- The “past service glitch” is a major obstacle to cities that want to join FRS for their police officers and firefighters. Most local pension plans provide a benefit to police officers and firefighters of 3% per year of service.

FRS Past Service Credit Special Risk Benefit “Glitch”

- Most members will not elect to give up their right to a 3% benefit under the City plan to obtain for a 2% benefit under FRS.
- As a result, most members will elect to stay in the City plan after the city joins FRS, which increases the pension costs borne by the local government.

Pending Legislation (HB 673/SB 1572)

- Corrects Special Risk past service “glitch”
- Amends Chapters 175/185 to allow Cities that join FRS to continue receiving premium tax revenues for closed fire/police pension plans

Pending Legislation (SB 534)

- Closes FRS Pension Plan to new members effective 1/1/10.
- All employees who join FRS on or after 1/1/10 would participate in the FRS Investment Plan [like a 401(k)].

FRS Benefit Comparison (Fire/Police)

Benefit	FRS	Miami Beach
Vesting Period	6 years	10 years
Normal Retirement Age	55+6 yrs svc <u>or</u> 25 yrs svc at any age	50+10 yrs svc <u>or</u> Rule of 70 (age + service = 70)
Average Final Compensation	Highest 5 yrs	Highest 2 yrs

FRS Benefit Comparison (Fire/Police)

Benefit	FRS	Miami Beach
Normal Retirement Benefit Amount	3% x AFC x yrs of svc (100% max.)	3% 1 st 15 yrs 4% thereafter (90% maximum)
Normal Form of Benefit	Single Life Annuity	10 yrs certain & life thereafter

FRS Benefit Comparison (Fire/Police)

Benefit	FRS	Miami Beach
Cost of Living Adjustment (COLA)	3% per year	2.5% per year
Deferred Retirement Option Program	Yes – 5 yrs	Yes – 3 yrs

FRS Comparison (Fire/Police)

Contributions	FRS	Miami Beach
Employee Pension Contribution	None	10%
Employee Social Security Contribution	6.2%	None
City Pension Contribution	20.92%	50 %
City Social Security	6.2%	None
Total Contribution	33.32%	60%

FRS Benefit Comparison (General Employees)

Benefit	FRS	Miami Beach
Vesting Period	6 years	5 years
Normal Retirement Age	62+6 yrs svc <u>or</u> 30 yrs svc at any age	50 or 55 + 5 yrs svc
Average Final Compensation	Highest 5 yrs	Highest 2 yrs

FRS Benefit Comparison (General Employees)

Benefit	FRS	Miami Beach
Normal Retirement Benefit Amount	1.6% x AFC x yrs of svc (100% max.)	3% x FAME x yrs of svc; or 3% 1 st 15 yrs and 4% thereafter (80% or 90% maximum)
Normal Form of Benefit	Single Life Annuity	50% joint and survivor annuity payable to spouse or partner

FRS Benefit Comparison (General Employees)

Benefit	FRS	Miami Beach
Cost of Living Adjustment (COLA)	3% per year	2.5% per year
Deferred Retirement Option Program	Yes – 5 yrs	Yes – 3 yrs

FRS Comparison (General Employees)

Contributions	FRS	Miami Beach
Employee Pension Contribution	None	8% or 10%
Employee Social Security Contribution	6.2%	None
City Pension Contribution	9.85%	21.57 %
City Social Security	6.2%	None
Total Contribution	22.25%	29.57% or 31.57%

Joining FRS – Advantages

- Competitive benefit structure for police/fire
- Provides portable pension benefit
- Reduces City pension costs in long-term; but total City pension costs could increase in the short term
- Gets City out of pension business
- Reduces and eventually eliminates actuarial funding obligations

Joining FRS – Disadvantages

- Total City pension costs will likely increase for several years; cost savings may not occur for 10-15 years
- Benefit structure for general employees not as good under FRS
- Control over pension benefits and cost shifts to legislature